

Testimony
on
Fundamental Budget Process Reform
by
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The Committee for a Responsible Federal Budget is a private nonprofit educational organization dedicated to educate the public about the Federal budget, the budget process and other issues that may have macro-economic impacts. Located at 220½ "E" Street NE, Washington, DC 20002. Telephone (202) 547-4484. Fax (202) 547-4476. Email crfb@aol.com.

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Mr. Chairman, Mr. Spratt, and Members of the Committee thank you for the opportunity to testify today. I would like to open with a quote from the 1967 President's Commission on Budget Concepts.

"The budget is the key instrument in national policymaking. It is through the budget that the Nation chooses what areas it wishes to leave to private choice and what services it wants to provide through government...Budget formulation is a highly political exercise in the American democratic system, and it should not be otherwise. It is therefore essential that the budget be understandable, at least in broad outline, to as many of the public and their elected representatives as possible."

Winston Churchill described the Soviet Union as a riddle wrapped in a mystery inside an enigma. The budget process is not that opaque. Neither, however, does it meet the standards of transparency and universality that should be hallmarks of good public sector budgeting practice. The current process is outcomes-driven, i.e., it is designed to reduce deficits and balance the budget. The process should be redesigned to make it more outcomes neutral and to promote political accountability.

The Committee for a Responsible Federal Budget published a report on Budget Process reform just over a year ago. We have provided copies of that report for all Members of your Committee and for the press. Anybody who wants more copies can get them from our offices. I shall not take time today to reiterate all that report says and recommends. Rather, I shall highlight our most serious concerns and summarize our group's recommendations.

Comprehensive, honest budgets promote accountability. Sound budget process promotes fiscal discipline. When politicians cannot agree on policy they tend to fall back on budget process. But no process can compel consensus and no process is impervious to political leaders determined to avoid budget discipline.

The Congressional budget process has succumbed to an all too human tendency. As soon as you write rules, people tend to bend and break them. When you build fences and fail to tend them, people will find ways to breach them. So many rules and concepts have been bent, broken or abused that the total damage to the process is greater than the sum of the parts. As a result, even well intentioned and, well-informed people have difficulty understanding the budget today and our broad public policy debates suffer as a consequence.

There are two big problems in the current budget process.

The first problem is caused by surpluses. Surpluses are not the problem. But a process designed to ensure that policy actions do not increase the deficit can be frustrating in the current surplus environment.

The budget process must accommodate changing priorities. If it does not, eventually it will break down.

The existing process is heavily biased toward deficit reduction. Barriers to amending enforcement provisions probably are higher than they ought to be. As the budget has shifted from deficits to surpluses some question the need for continued fiscal restraint. As surpluses grow, political leaders become frustrated with rules they perceive to be unrealistic.

There are, however, problems unrelated to deficits or surpluses. For example, the use of creative definitions has hampered our ability to measure the size of the Federal sector relative to the overall size of the economy. Revenues are considered negative expenditures. Tax credits mask spending entitlements. Current definitions and budget concepts do not inform analyses, as they ought to do. Congress and the President seem to spend an inordinate amount of time on budget-related matters but they never agree on an overall fiscal policy plan for the national government.

Since 1990, caps have acted as a reasonably effective constraint on discretionary spending. But Congresses and Presidents tend to brush aside caps that they consider to be unrealistic. Because entitlements have grown so rapidly, growing discretionary appropriations represent a shrinking part of the budget pie, thus whetting appropriators' appetites. PAYGO acts as a break on new entitlements and revenue reductions. But there is no effective limit on direct spending or revenue losses under existing laws and there can be no effective bar to Congressional majorities and presidents determined to use part of the surplus for new/expanded tax cuts and direct spending.

Tax Expenditures that walk, talk and look like expenditure programs understate both revenues and expenditure. Refundable tax credits, on the spending side of the budget, are hard to distinguish from other entitlement programs. Netting, i.e., subtracting income from expenditures at the account level for selected programs and showing the net figure as programs outlays understates costs and distorts the budget picture.

The Committee for a Responsible Federal Budget has made budget process a priority for the entire twenty years that we have been in business. In the last five years, we have worked closely with groups inside and outside government to develop specific recommendations for reform. The most important of those recommendations is a Joint Budget Resolution.

Congress and the President should agree on fiscal policy goals, i.e., aggregate revenues, expenditures, surpluses or deficits, debt levels or debt reduction targets, etc, and incorporate those agreements in a Joint Budget Resolution (JBR). The JBR should include enforceable expenditure limits for discretionary and direct spending. If political leaders are unwilling to establish hard limits for entitlement spending, the JBR should at least contain targets for major direct spending categories. That would provide guidelines to judge whether and by how much actual outlays exceeded or threatened to exceed budget guidelines.

Other recommendations for reform are spelled out at the beginning of our report. They include the following—

PAYGO discipline should be maintained. The sooner new limits are enacted, the more disciplined the budget process will be. Congress and the President should include limits on the amounts of any projected surpluses available to offset new entitlements/revenue reductions. Legislation that would commit surpluses in excess of the amounts contained in the budget should be subject to PAYGO rules and, if enacted, trigger sequestration.

We favor a biennial cycle for budgets, appropriations and revenue legislation. That could free up time for congressional oversight and serious attention to authorization legislation.

An automatic continuing resolution, at or below the level of the caps contained in the most recently enacted budget resolution, should provide stop-gap funding in the event that Congress and the President fail to reach agreement on some or all regular appropriations bills. Automatic continuing resolutions should be very restrictive. If sufficiently restrictive, they could create compelling incentives for Congress and the President to agree on and enact regular appropriations bills.

Notwithstanding the disposition of the President's recommended reserve funds this year, sound budget practice suggests that you set aside a rainy day fund. Regularly recurring emergencies surprise no one except the Congress. Coupled with reasonable limits on emergency spending, the rainy day fund could help make budgets more realistic and enforceable.

This sounds obvious, but the budget should distinguish clearly between spending and receipts. There should be very strict limits on receipts scored as negative outlays. Activities that have all the characteristics of spending programs should not be scored as tax expenditures. There is a difference between spending and taxes and budgetary presentations should distinguish clearly between the two.

You should enact enhanced rescission legislation to take the place of line item veto. The Supreme Court having declared item veto to be unconstitutional, Congress and the Administration still should do all you can to strengthen the President's hand to curb wasteful and unnecessary spending.

It is time for Congress and the President to revisit some basic budget concepts. We highly recommend that you set up a commission to do so. If you do not, we fear that you will find current concepts woefully inadequate when you move to consideration major reforms in huge programs such as Medicare and Social Security.

For example, Medicare Part "B" premiums are treated as negative outlays in the budget. As a result, any Medicare reform that relies more heavily on private intermediaries than the current system will be sorely disadvantaged due to budget scorekeeping.

A concepts commission is the best approach to resolve technical issues and address new issues as they arise. A new concepts commission should meet at regularly scheduled intervals—perhaps every 10 years or so.

We bring you two additional recommendations today that go beyond those included in our report.

The House needs a permanent Budget Committee; and

The House and Senate Appropriations Committees should agree on subcommittee allocations.

Senate Budget Committee Members stay on the Committee and accrue seniority as they do on other standing committees. House Budget Committee Members rotate. This puts the House at a disadvantage vis a vis the Senate.

Senate Members develop institutional memory and loyalty to the committee and the process. House members do not. That can only hurt the House in conference. Changing to a permanent House Budget Committee would be good for the institution and it would tend to strengthen the budget process. We believe both are laudable goals.

The Appropriations Committees are the only House and Senate Committees with exactly similar jurisdictions and identical budget allocations. Also, they are the only committees that receive allocations every year for spending in the jurisdiction of several subcommittees and for many different purposes.

Expenditure allocations to other committees almost always are for specific programs or purposes and everyone knows what they are. Even though allocations for the same program go to different House and Senate Committees, therefore, there is little chance that the money will be divided differently to cover different purposes in the two bodies.

Not so with Appropriations. The House Appropriations Committee may give more money to subcommittees 1 through 6 and the Senate Committee may give more to subcommittees 7 through 13. Each subcommittee (quite reasonably) believes that it can spend up to their allocation. The tendency, therefore, is for conferences between the two bodies to settle on amounts at least equal to the higher of the House or Senate subcommittee allocation. This tends to undermine budget discipline. It could be remedied by having the Appropriators conference their 302(b) allocations before they file with the Clerk of the House and the Secretary of the Senate respectively.

Mr. Chairman, this concludes my testimony. I would be happy to address any questions that members of the committee may have.